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DIRECTORATE OF
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State Department review completed

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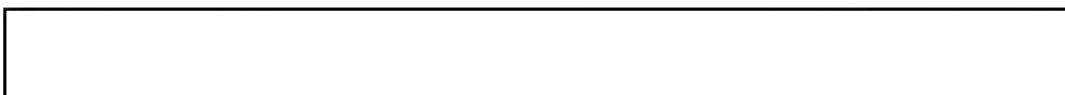
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South Vietnam: Vice President Ky has again criticized allied military and negotiating strategy in Vietnam.

In a speech designed to re-establish his credentials as South Vietnam's leading hawk and his image of independence of the US, Ky yesterday renewed his public criticism of American conduct of the war, proposed that Saigon withdraw from the Paris talks, and declared that the only solution for his fellow countrymen is to continue to fight.

Ky probably chose this opportunity to play on South Vietnamese xenophobia in order to contrast his stand with that of President Thieu, whose peace plan is being interpreted by many Vietnamese as a response to American pressure.

* * * *

North Vietnamese forces conducted a series of light rocket and mortar attacks against allied positions below the eastern portion of the Demilitarized Zone on 14-15 July, but enemy activity elsewhere in South Vietnam remained at a low ebb.

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USSR - East Germany: Moscow has proclaimed strong support for East Germany following a visit by an East German party-government delegation.

The statement issued at the end of the latest talks is probably intended in part to assuage fears which Soviet Foreign Minister Gromyko's recent relatively moderate speech is likely to have aroused in Pankow over the course of Soviet foreign policy. The Soviets, however, are unlikely to be seriously swayed by objections from the East Germans against making overtures of detente to the West.

In contrast to language used in Gromyko's foreign policy address, the statement seems at pains to use the East Germans' pet phrases for describing the European situation. It does voice support for developing "good-neighborly" relations with West Germany, but repeats the usual set of conditions, including recognition of East Germany, which are known to be unacceptable to Bonn. It scores the Bonn government's "militarist-revanchist" and "imperialist-expansionist" policy as one of the basic sources of tension in Europe. It makes no reference to Gromyko's cautious offer of bilateral talks with Bonn and four-power talks on Berlin.

In addition to a demonstration of socialist solidarity, the visit of 7-14 July produced agreement to strengthen economic and cultural ties. Although the economic agreements were not described in any detail, they appear to involve an even tighter meshing of the two national economies and will probably increase East German dependence on the USSR.

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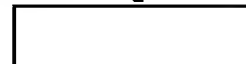
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Malaysia: The threat of a split in the ruling Malay Party is growing and further communal violence is probable.

The executive committee of the United Malays Nationalist Organization on 12 July expelled an extremist leader from the committee for circulating a letter calling for Prime Minister Rahman's resignation. The letter charged that Rahman's pro-Chinese policies had been responsible for the party's electoral losses last May and the subsequent communal rioting.

Although the committee's action demonstrates that the top echelon of the party--and the government--continues to be dominated by moderates, the extremists are believed to have widespread support, including some junior army officers. The expelled extremist leader told a US Embassy official that he will continue his anti-Rahman campaign.

If a major split does develop in the party, with the extremists either forming a new opposition group or joining the racist Pan Malayan Islamic Party, the popular base of the emergency regime will be seriously eroded. In any event, Malay extremists can be expected to step up their efforts to pressure the emergency government to adopt more openly pro-Malay policies. These efforts in turn will almost certainly lead to further harassment of the Chinese.



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Pakistan: President Yahya Khan may be planning to establish a civilian caretaker government soon.

Admiral S. M. Ahsan, one of three deputy martial law administrators, recently told a US official that present planning in the top echelon of the administration calls for early creation of the equivalent of a civilian council of ministers composed of respected nonpoliticians. This body would oversee day-to-day functions and negotiate with political leaders on acceptable ground rules for an eventual return to normal political life. The three deputy martial law administrators would return to their service posts, but would meet periodically with Yahya on major policy matters.

Although cautioning that the plan was not firm, the admiral said he expected the civilian council to be announced before President Nixon's visit at the end of July. Ahsan may be premature in predicting imminent announcement of the council, but Yahya probably does believe that the time is fast approaching to take new political initiatives in order to maintain public confidence in the martial law administration's promise to return the government to civilian control.

Ahsan also claimed that Yahya now favors holding elections under the 1956 constitution, with the proviso that amendments can be made by majority vote. Several politicians in East Pakistan, which represents 56 percent of the nation's population, also insist on a simple majority for amendments. Achieving a consensus on this plan, however, will not be easy. West Pakistani politicians generally accept the 1956 constitution, but on the condition that after the elections amendments would require a two-thirds vote of the assembly.

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The two most popular Bengali leaders oppose holding any elections under the 1956 constitution. Pro-Peking leader Maulana Bhashani has called for a national convention to frame a new constitution before elections are held, and the more moderate Sheikh Mujibur Rahman reportedly wants elections for a legislative constituent assembly to be held under martial law regulations. [REDACTED]

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India: The presidential contest has turned into a major test of strength for Prime Minister Indira Gandhi.

A serious internal power struggle has resulted from old-guard Congress Party bosses forcing the nomination of a presidential candidate unacceptable to Mrs. Gandhi. When the party announced that Sanjiva Reddy--currently the speaker of the lower house of parliament--would be its candidate, acting President V. V. Giri also declared himself in the running. Giri's decision apparently was prompted by Mrs. Gandhi.

[Mrs. Gandhi now appears to be backing away from an open confrontation with the party bosses which could threaten her hold on the prime ministership. Most Congress leaders in the past have been reluctant to push matters to an open break and it is possible that she may prevail again. On the other hand, her enemies may believe that they finally have her on the run and may seek to press their advantage.]

The presidential election will be held on 16 August by an electoral college made up of the members of the national parliament and the state legislatures. Unless Congress unites behind a single candidate, there is a chance that it could lose. Although the opposition parties are unlikely to get behind a single candidate, a split Congress vote could in effect leave the decision in the opposition's hands.

The Indian presidency under normal conditions is primarily a ceremonial position. It could assume considerable importance if--as expected--no single party gains a clear majority in the next general election which must be held by 1972.

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Cuba: Fidel Castro has indicated his willingness to support Latin American "revolutionary" governments that assume power by means other than "armed struggle."

His statements in a speech on 14 July, however, do not mean that the "armed struggle" policy has been abandoned. Cuba can be expected to continue its support of insurgency wherever the chances for success seem good.

Cuban policy in the past has generally emphasized guerrilla warfare as the only means of achieving desired political change "in most countries of Latin America." In the speech, however, Castro said that "it is only fair that each country develop its own revolution in its own style in accordance with the conditions of that country." Although he was speaking in the context of the current Peruvian situation, his statements accord more closely with the views of the Latin American Communist parties, which have long maintained that the path to power should be determined by local Communist leaders, not by Havana.

Castro acknowledged that the measures adopted so far by the new Peruvian administration have a "revolutionary character" and said that if the Peruvians--or any other Latin American government--maintained an anti-imperialist attitude and renounced the OAS sanctions against Cuba, the Cuban Government would not refuse a request for the resumption of relations.

This overture--first voiced by the Cuban representative at a UN conference in Lima last April--was probably prompted by several factors, such as the announced agrarian reform program in Peru, the nationalization of US firms in Peru and Chile, statements by various Latin American leaders calling for the reintegration of Cuba into the American community, and the hostile reception given to Governor Rockefeller on his recent trips to the area.

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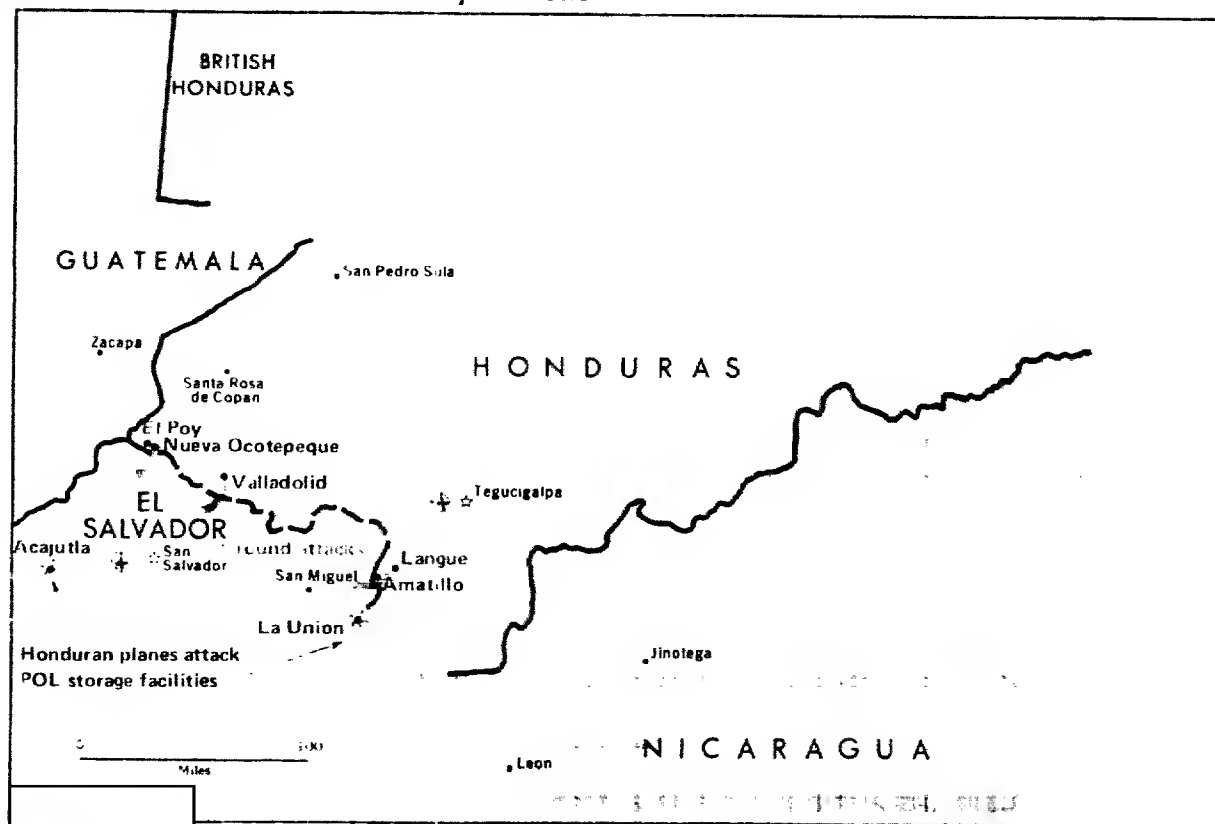
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El Salvador-Honduras Military Actions



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[El Salvador - Honduras: The OAS Council in an effort to end the two-day-old hostilities has ordered a cease-fire.

The council, acting under the Rio Treaty, unanimously approved a resolution yesterday calling for both sides to suspend hostilities. It also charged the special seven-nation investigative committee now in El Salvador with recommending measures to be taken to end the fighting started by El Salvador on 14 July.

Salvadoran President Sanchez had been under intense domestic pressure for military action to avenge reverses suffered during past border clashes and alleged mistreatment of Salvadorans in Honduras. The government apparently feared that it would be overturned if it did not allow the military an opportunity to refurbish its poor public image. It therefore launched an attack before the OAS could issue an expected call for the stationing of observers along the border. Salvadoran officials, however, were expecting an early OAS cease-fire order and are likely to honor it.

Salvadoran ground offensives in the El Amatillo area at its eastern border with Honduras and in the El Poy-Nueva Ocotepeque area near the northwestern border are showing signs of success. Salvadoran troops have reportedly occupied Nueva Ocotepeque and Valladolid, and have penetrated as far as Langua on the eastern front. Each country has bombed and strafed the other's capital city airport but only minor damage was inflicted. Honduran planes attacked oil depots at La Union and Acajutla, causing severe damage which may result in serious POL shortages.

The Honduran ambassador to Guatemala told the OAS committee yesterday that his government was prepared to accept a comprehensive cease-fire. Honduran **]**

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[radiobroadcasts under government direction, however, are waging an intensive psychological campaign against El Salvador, threatening to "erase" San Salvador from the map and pay El Salvador back "ten fold." The broadcasts are advising Salvadorans to evacuate San Salvador and urging them to overthrow the Sanchez government. There are reports, also, that Salvadorans in Honduras are being rounded up and detained. This has occurred in only one city but might spread. (Map)

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Venezuela-Colombia: Both countries have made moves to ease their recent difficulties.

For his first foreign visit since his inauguration, Venezuelan President Caldera has chosen to accept an invitation to attend ceremonies commemorating the 150th anniversary of Colombia's independence. To pave the way for a successful visit, he has responded positively to President Lleras' suggestion that Venezuela join in efforts to mediate the current crisis in Central America.

Problems have recently arisen between the two countries over the perennial question of Colombians who work illegally in Venezuela, Venezuela's failure to adhere to the Andean economic integration agreement, and disputed jurisdiction over part of the continental shelf.

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Japan: The governing party made an unexpectedly strong showing in the municipal elections in Tokyo on 13 July.

Prime Minister Sato's Liberal Democratic Party, with 54 seats, regained the plurality in the municipal assembly that it lost four years ago following a major vote-buying scandal. The Japan Socialist Party suffered another disastrous defeat, dropping from first to third place behind Komeito, which elected all 25 of its candidates. The Communists, who now rank fourth in the assembly, doubled their previous nine seats.

The elections will enhance the prestige of the government party, which is increasingly preoccupied with the issues of Okinawan reversion and the US-Japan defense relationship. The issues of the campaign, however, were local ones and the results do not necessarily reflect voter sentiment on international issues. The Liberal Democrats, whose urban support has steadily eroded in recent years, will be encouraged over prospects of recapturing urban votes from the Socialists in the general elections to be held before next year.

The impressive showing of the Japan Communist Party results in large part from its avoidance of the hard ideological line adhered to by the Socialists, and also the organizational competence of the Communists.

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Bulgaria-Pakistan: Sofia has extended its first economic credit to Rawalpindi. The \$8-million credit is for machinery and equipment and probably will be repaid with agricultural commodities and textiles. The credit will help expand mutual trade, which last year declined to \$4.5 million, roughly half the 1967 level. A Bulgarian delegation is expected to leave shortly for Pakistan to work out the final details of the agreement. [REDACTED]

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[REDACTED] Bolivia: Tensions between General Ovando and President Siles may be strained to the breaking point today. Public expressions of support for the presidential candidacy of Ovando's rival, the popular mayor of La Paz, retired General Escobar, will be made in the capital. [REDACTED]

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[REDACTED] this public support for Escobar will come with Siles standing at his side, thus making clear that the President supports Escobar's candidacy. [REDACTED]

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[REDACTED] [REDACTED]

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